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Alberta

LABOUR
Pension Benefits Branch

ALBERTA LABOUR

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the Minister

420 Legislative Building
Edmonton, Alberta, Canada
T5K 2B6

July 1986

Her Honor The Honourable Helen Hunley
Lieutenant-Governor of the Province of Alberta

Madam:

I have the honour to present to you the Annual Report of the Pension Benefits Branch of the Alberta Department of Labour for the fiscal year ended March 31, 1986. The report is submitted in accordance with section 6(2) of the Pension Benefits Act.

Respectfully submitted,

Ian C. Reid
Minister of Labour

Alberta
LABOUR
Labour Division
Pension Benefits Branch

10808 - 99 Avenue, Edmonton, Alberta, Canada T5K 0G5 403/427-8322

July 1986

The Honourable Dr. Ian C. Reid
Minister of Labour
Room 420, Legislative Building
Edmonton, Alberta

Dear Dr. Reid:

I have the honour to present to you the Annual Report of the Pension Benefits Branch for the fiscal year ended March 31, 1986. The report outlines the role and responsibilities of the Pension Benefits Branch and the activities undertaken during the period under review.

Respectfully submitted,

Emilian V. Groch
Superintendent of Pensions

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Pension Benefits Branch

Roles and Responsibilities

The Pension Benefits Branch of the Alberta Department of Labour is responsible for the administration and enforcement of the ***Pension Benefits Act***, which came into force on January 1, 1967. The principal objective of the Act is to safeguard employees' rights to benefits promised under pension plans and to assist and encourage employers in the establishment, maintenance and improvement of pension plans in Alberta.

With the exception of certain exempted pension plans identified under section 21 of the Regulations, the Act requires that every pension plan covering employees in Alberta be registered with the branch in order to ensure that each plan complies with the terms and conditions of the Act throughout its lifetime.

In accordance with the Act, the branch can refuse to register pension plans that do not qualify and can cancel Certificates of Registration previously issued. Branch staff monitor pension plans to ensure that they are administered correctly, that pension plan funds are sufficient to cover earned benefits, and that pension plan monies are prudently invested and managed. A brief description of the main provisions of the ***Pension Benefits Act*** is contained in the Appendix on page 20 of this report.

As authorized by section 5 of the ***Pension Benefits Act***, the Alberta Government is a party to two agreements, one with the Government of Canada, and one with other provinces that have legislation similar to Alberta's Act. Both agreements provide for the reciprocal registration, audit, and inspection of pension plans and the reciprocal enforcement of laws affecting those plans. Under these agreements, a pension plan subject to the legislation of more than one authority is supervised by that authority having jurisdiction over the greatest number of plan members. This means the branch carries out the duties and responsibilities of other authorities in cases where reciprocal agreements apply, including the administration of the legislation of other jurisdictions.

The branch is also the repository for trust agreements relative to employee benefit plans filed under section 151 of the ***Labour Relations Act***. Filed trust agreements and amendments are reviewed for possible inadequacies or inconsistencies with regard to the intent and purpose of the agreement.

With respect to trust agreements that have been authorized or sanctioned by a collective agreement and filed with the Minister of Labour, section 151 of the Labour Relations Act provides that a trustee is not personally liable for his or her actions as a trustee unless it can be proven that the trustee was dishonest or did not act in accordance with the terms of the trust agreement.

Regulation of Pension Plans

Plans Examined and Approved

As outlined in Table 1 on page 16, the Pension Benefits Branch examined 350 new pension plans during the 1985-86 fiscal year. Of these, 348 received a Certificate of Registration. This represents the largest number of new plans receiving a Certificate of Registration in any one fiscal year since the effective date of the Pension Benefits Act, except for the first two fiscal years of the branch ending March 31, 1968 and March 31, 1969.

Graph 1 on page 19 shows that from 1970 to 1982 the number of new plans registered remained fairly constant, with an average of 84 new plans being registered in any one year. Since 1982, the number of plans registered has increased greatly in number and has averaged 311 per year.

The main reason for this large increase in registered plans was a decision by Revenue Canada, Taxation, to accept pension plans that primarily provide benefits to significant shareholders of companies and their relatives. Of the 348 plans that received a Certificate of Registration in the 1985-86 fiscal year, 263 plans, or 76 per cent, provided benefits primarily to significant shareholders.

Under reciprocal agreements entered into with other governments, two plans were transferred to the jurisdiction of Alberta, and five were transferred from Alberta to other jurisdictions. During the year under review, 754 amendments were approved to plans supervised by the branch.

As of March 31, 1986 the branch was responsible for the supervision of 1996 pension plans, which included 36 plans reviewed and awaiting further documentation before approval for registration was given. Graph 2 on page 19 shows that on that date the branch was responsible for the supervision of the highest number of pension plans since its inception. The increase in supervised plans since 1980 is due mainly to the large number of new registered plans that provide benefits primarily to significant shareholders, and also to the fairly constant number of plans being discontinued.

Discontinued Plans

Table 2 on page 16 shows that 118 plans supervised by the branch, covering 763 Alberta employees and 323 employees in other provinces, were discontinued. Twenty five plans, covering 153 employees, were discontinued because of financial problems experienced by employers. Eighteen of these 25 plans provided benefits primarily for significant shareholders. This compares to 32 plans discontinued in fiscal year 1984-85, 25 plans discontinued in fiscal year 1983-84 and 11 plans discontinued in fiscal year 1982-83 because of financial problems of employers. During 1985-86, 24 plans were discontinued because there were no remaining members.

Twelve plans were discontinued because they merged with other pension plans, and affected plan members had their benefits transferred to the other registered plans. These 12 plans covered 675 or 62 per cent of the 1086 plan members affected by plan discontinuances in the 1985-86 fiscal year. This means that continued pension plan coverage ceased for only 411 employees. Of the 118

plans discontinued in 1985-86, 83 provided benefits primarily for significant shareholders.

Contributions to Plans

As outlined in Table 3 on page 17, contributions to pension plans supervised by the branch during the 1985-86 fiscal year totalled almost $277 million. This represents an increase of approximately one per cent from total contributions in the previous fiscal year.

Total employee contributions increased approximately six per cent to $64.3 million from the previous fiscal year's total of $60.5 million.

Total employer contributions dropped to $212.7 million, representing a decrease of approximately one per cent from the total employer contributions in the previous fiscal year. The decrease in employer contributions was due mainly to the utilization of surplus funds to offset required employer contributions.

Plan Surplus

In a number of plans, surplus monies resulted both from favourable investment performance and from experience better than that assumed by the actuary. Some plans used surpluses to wholly or partly offset required employer contributions and in some cases to provide for plan benefit improvements. In certain plans with large surpluses, the branch consented to a refund to the employer of a portion of the surplus generated by employer contributions.

These refunds occurred in situations where the plan was discontinued and in continuing plans. In both cases, the refunds were allowed only when plan provisions provided for a return of surplus funds to the employer.

In the case of discontinuance, refunds were allowed once the branch staff had ensured that all benefits promised under the plan had been provided.

In the continuing plan situation, refunds were allowed only after branch officials had ascertained that the cost of all benefits promised was fully covered, and that a minimum surplus reserve was left in the fund.

As outlined in Table 4 on page 17, approval for such refunds was given in respect of 19 discontinued and 25 continuing plans. The total amount refunded was approximately $81.9 million. This compares to a total of $10.7 million refunded to seven discontinued and 20 continuing plans in the 1984-85 fiscal year.

Jurisdiction of Plan Membership

Altogether, 226 644 employees were covered by the 1996 pension plans supervised by the branch. This represents a marginal decrease from the total employees covered in the previous fiscal year. Of the 226 644 employees, approximately 34 per cent were employed in other jurisdictions.

The number of Alberta employees covered by plans supervised by the branch decreased approximately two per cent from the previous fiscal year to 150 305. The average number of members in each plan was approximately 114.

The 348 new plans that received a Certificate of Registration in the period covered in this report included 3856 employees, of whom 3156 were employed in Alberta. The 263 plans that primarily provided benefits to significant shareholders covered 540 employees for an average of only two employees per plan. The average number of members in each new non-significant shareholder plan was approximately 39.

Table 5 on page 17 provides further details on the number of employees covered by pension plans supervised by the branch.

Plan Vesting Provisions on Termination of Employment

Approximately 31 per cent of all pension plans supervised by the branch require 10 or more years of service or 10 or more years of plan membership for vesting. These plans cover 74 per cent of all plan members. All pension plans must at least provide for vesting in accordance with the minimum requirements of the ***Pension Benefits Act*** for Alberta employees. For members employed outside of Alberta, pension plans must at least provide for vesting in accordance with the requirements of legislation in the applicable jurisdictions.

As in previous years, the most frequently encountered vesting provision on termination of employment was 10 years of service or 10 years of plan membership. Approximately 21 per cent of the pension plans supervised by the branch, covering about 54 per cent of all plan members, require 10 years of service or 10 years of plan membership for a plan member to qualify for vesting of benefits on termination of employment or termination of plan membership.

Approximately 51 per cent of all plans supervised by the branch provide for immediate vesting. However, these plans cover only two per cent of all plan members. The vast majority of these plans are pension plans that primarily provide benefits to significant shareholders of companies. Table 6 on page 18 provides further details on the vesting provisions of pension plans supervised by the branch.

Type of Benefit Provided

Table 7 on page 18 shows information on the type of benefit provided by pension plans supervised by the branch. Particularly interesting is the fact that approximately 52 per cent of all plan members are covered by plans providing flat dollar benefits, which are usually based on years of service. Flat benefit pension plans represent only about four per cent of all plans supervised by the branch. They contrast with money purchase pension plans which represent about 72 per cent of all plans but which cover only eight per cent of all plan members.

Money purchase pension plans are most common to employers who have a small number of employees on staff. These plans are easier and less costly to administer than other types of plans. Since 1981, Revenue Canada, Taxation, has required that all new pension plans which primarily provide benefits to significant shareholders of companies, be money purchase pension plans. This has

contributed to the establishment of a large number of money purchase pension plans with a very small number of members.

Flat benefit pension plans are most commonly found in the construction, food and retail industries, and the vast majority are multi-employer negotiated pension plans administered by a board of trustees.

Of the 348 new plans that received a Certificate of Registration in the period covered by this report, 301, or 86 per cent, were money purchase pension plans. However, these 301 plans covered only 61 per cent of the 3856 employees covered by the 348 new plans registered in fiscal year 1985-86.

Canadian Association of Pension Supervisory Authorities

Legislation similar to the Pension Benefits Act of Alberta has been enacted by the governments of Canada, Newfoundland, Nova Scotia, Quebec, Ontario, Manitoba, and Saskatchewan. Authorized representatives of the various authorities are members of the Canadian Association of Pension Supervisory Authorities (CAPSA). The association generally meets twice a year to review all aspects of pension plans and pension legislation. Its chief concern is to promote uniformity in legislation and interpretation of the various acts with similar provisions.

A committee of CAPSA, the Standing Committee of Superintendents, also meets on a regular basis. In addition to reviewing administrative concerns related to the pension legislation and conducting studies on behalf of CAPSA, the committee reviews new developments and problem areas, and identifies courses of action that can be taken. Its proceedings and recommendations are reported to CAPSA.

Regular meetings of CAPSA and the Standing Committee of Superintendents have resulted in a high degree of co-operation between various jurisdictions. The meetings contribute to the maintenance of uniform legislation and the promotion of similar administrative procedures in various jurisdictions. Persons involved in the pension field have benefited from this co-operation.

By open invitation, representatives of other jurisdictions considering the enactment of pension legislation attend meetings of CAPSA from time to time. CAPSA met twice during the period covered by this report.

In the 1985-86 fiscal year, other committees of CAPSA continued their work in developing revised rules for investment of pension funds, solvency and funding, and the jurisdictional reciprocal agreements. In addition, considerable effort was applied by CAPSA to ensure the uniform development of a number of other pension-related issues.

Other Activities

As in previous years, the branch dealt with a large number of pension-related enquiries from the public. When requested to do so, the branch provided assistance to employees, employers, insurance and trust company officers, consultants and lawyers. Enquiries from employees usually dealt with non-receipt of payments under pension plans or with uncertainties involving benefit

rights. Enquiries from people providing pension services, such as consultants, invariably related to the requirements of the ***Pension Benefits Act***. People who provide pension services were particularly interested in knowing whether certain actions are legally possible within the parameters of the legislation. The branch also dealt with a large number of enquiries relating to what changes may be made in the near future to the ***Pension Benefits Act*** and the effective date of those changes.

In accordance with the reciprocal agreements entered into with other governments, the branch made every effort to ensure that plans having members in other jurisdictions were administered in accordance with the jurisdictional requirements for those respective members.

The branch also provided assistance to other government departments on various matters relating to pensions, the retirement income system, and employee health and welfare benefit plans. In addition, branch staff served as speakers at public pension meetings and seminars and assisted pension plan administrators in tracing the whereabouts of terminated plan members entitled to benefits.

Amendments to the Pension Benefits Act

No changes were made to the ***Pension Benefits Act***. Order in Council 855/85 amended Section 20 of the Regulations by adding the province of Newfoundland to the list of designated provinces.

Pension Legislative Review

The private pension plan system has been the subject of considerable public interest and debate over the last decade. Several major reports and studies have been completed by the private sector and various governments. These reports and studies have provided a comprehensive analysis of a variety of concerns and have offered a number of alternatives for improvement of existing private pension plans. The branch was very involved in the pension reform discussions, and in the 1984-85 fiscal year, the government released a discussion paper on the proposed changes.

The culmination of the discussions in 1984-85 was the introduction of Bill 79, the Employment Pension Plans Act on May 29, 1985. The bill was presented as a final consultative document for public response.

The following major changes were put forward in the bill:

- Both full time and part-time employees would be eligible to join an available plan maintained for their class of employment, if they have completed two years of service and have met a minimum earnings test.
- Pension plans would provide for vesting and locking-in after five years of employment.
- Pensions would be portable through the entitlement to transfer funds to a locked-in Registered Retirement Savings Plan or another pension plan.

- Spouses of deceased vested employees would be provided with a pension that has a value at least equal to 60 per cent of the value of the pension accrued to the member.

- Employees with spouses would be required to choose a pension that would provide a pension of at least 60 per cent to the spouse on the employee's death. This requirement could be waived by the spouse.

- Pension plans would be required to credit a reasonable rate of interest on employee contributions.

- Employers would be required to pay for at least 50 per cent of an employee's accrued pension.

The bill was distributed to employers and the pension industry. Requests for copies of the bill were received from many individuals as well. Subsequent meetings were held with industry representatives to discuss the impact of proposed changes. Branch staff also spoke to several special interest groups regarding the bill and answered a large number of individual enquiries.

At the same time, officials of the branch continued to meet with other provincial and federal officials in an effort to consolidate, as much as possible, the provincial and federal consensus regarding pension reform.

Meetings were also held with representatives of the multi-employer pension plan industry to ensure proper coverage of this type of pension plan in the new legislation.

The branch continued its development of a revised bill incorporating the comments received on Bill 79. Some technical details were still to be resolved at the end of the 1985-86 fiscal year.

Operating Costs and Revenue

Operating costs of the branch for fiscal year 1985-86 amounted to $306 194.

Revenue, derived from fees charged in respect of Applications for Registration and Annual Information Returns, amounted to $40 682.

Table 1
Pension Plans Approved, Discontinued, Transferred or Amended During the Year Ended March 31, 1986

	Total at March 31, 1984*	Total at March 31, 1985*	Change During Year	Total at March 31, 1986*
Plans Examined	3 445	3 788	350	4 138
Plans Approved for Registration	3 351	3 692	348	4 040
Plans Transferred to Alberta Supervision	138	146	2	148
Plans Transferred from Alberta Supervision	151	154	5	159
Plans Discontinued (Registration Cancelled)	1 944	2 049	118	2 167
Amendments to "Approved" Plans	10 053	10 811	754	11 565
Annual Information Returns**	22 243	23 682	1 800	25 482
Cost Certificates***	7 340	7 835	682	8 517

* These columns show totals since January 1, 1967.

** An Annual Information Return is submitted in respect of every pension plan and provides data regarding contributions to the plan, plan membership, terminations and retirements.

*** A Cost Certificate is submitted every three years and when plan changes affecting the funding and solvency of the plan occur. The Cost Certificate provides data regarding the liabilities and assets of the plan and describes the contributions required to fund the benefits provided under the plan.

Table 2
Reasons for Discontinuance of Pension Plans During the Year Ended March 31, 1986

Reason for Discontinuance	Total at March 31, 1984*	Total at March 31, 1985*	Change During Year	Total at March 31, 1986*
No Reason Given - Employer's Request	522	544	23**	567
Replaced by New Plans	443	462	19	481
No Members Left in Plan	290	306	24	330
Non-Approval by Revenue Canada, Taxation	287	288	0	288
Company Dissolved	186	196	24	220
Financial Problems	153	185	25	210
Non-Compliance	34	38	1	39
Not Required to Register and Duplicate Registration	29	30	2	32
TOTAL	1 944	2 049	118	2 167

* These columns show totals since January 1, 1967.

** The 23 plans shown in this category consisted of:

13 "Significant Shareholder" Plans	23 members
10 "All Employees" Plans	128 members
TOTAL	151 members

Of the 151 members covered:
56 transferred the value of their entitlement to Registered Retirement Savings Plans
43 received deferred life annuities
41 had no contributions made to the plan on their behalf, as the plan was cancelled on its effective date.

Table 3
Contributions to Pension Plans Supervised by The Pension Benefits Branch During the Years Ending March 31, 1984, 1985 and 1986

	1984	1985	1986
Employee Required Contributions	$ 46 821 571	$ 49 592 942	$ 49 757 028
Employee Voluntary Contributions	8 071 031	10 917 306	14 508 959
Total Employee Contributions	$ 54 892 602	$ 60 510 248	$ 64 265 987
Employer Current Service Contributions	$ 207 308 529	$ 179 473 631	$ 172 397 543
Employer Past Service Contributions	41 227 381	32 578 863	37 096 647
Employer Special Payments	2 794 693	2 998 333	3 175 336
Total Employer Contributions	$251 330 603	$215 050 827	$212 669 526
TOTAL CONTRIBUTIONS	$306 223 205	$275 561 075	$276 935 513

Table 4
Surplus Refunds From Pension Plans Supervised by The Pension Benefits Branch During the Years Ended March 31, 1984, 1985 and 1986

	1984		1985		1986	
	#	$ million	#	$ million	#	$ million
Continuing Plans	11	58.0	20	10.0	25	80.0
Discontinued Plans	13	.9	7	.7	19	1.9
TOTAL	24	58.9	27	10.7	44	81.9

Table 5
Jurisdiction of Plan Membership for Pension Plans Supervised by The Pension Benefits Branch At March 31, 1984, 1985 and 1986

	1984		1985		1986	
	#	%	#	%	#	%
Alberta	151 664	65.1	153 024	67.3	150 305	66.3
Quebec	25 802	11.1	22 436	9.9	22 653	10.0
British Columbia	19 443	8.4	16 076	7.1	17 517	7.7
Ontario	16 628	7.1	16 724	7.4	17 083	7.5
Manitoba	8 991	3.9	8 760	3.8	8 667	3.8
Saskatchewan	6 296	2.7	6 304	2.8	6 116	2.7
Nova Scotia	2 559	1.1	2 394	1.0	2 450	1.1
Newfoundland	511	0.2	535	0.2	568	0.3
Yukon & Northwest Territories	122	0.1	297	0.1	431	0.2
New Brunswick	259	0.1	234	0.1	266	0.1
Prince Edward Island	15	-	26	-	25	-
Outside Canada	561	0.2	592	0.3	563	0.3
TOTAL	232 851	100.0	227 402	100.0	226 644	100.0

Table 6
Vesting on Termination of Employment or Plan Membership
At March 31, 1985 and 1986

Conditions to Qualify for Vesting*	1985				1986			
	Plans		Members		Plans		Members	
	#	%	#	%	#	%	#	%
Immediate vesting	824	46.8	4 471	2.0	1 016	50.9	5 267	2.3
5 years or less of service or membership	247	14.0	34 623	15.2	307	15.4	36 645	16.2
6 - 9 years of service or membership	57	3.2	17 167	7.6	58	2.9	17 281	7.6
10 years of service or membership	400	22.7	123 768	54.4	412	20.6	122 609	54.1
11 - 19 years of service or membership	85	4.8	12 551	5.5	65	3.3	12 059	5.3
20 years or more of service or membership	39	2.2	4 668	2.1	33	1.7	3 058	1.4
Service or membership and/or age	11	0.6	4 426	1.9	19	0.9	6 296	2.8
No vesting other than that required by legislation **	100	5.7	25 728	11.3	86	4.3	23 429	10.3
TOTAL	1 763	100.0	232 851	100.0	1 996	100.0	226 644	100.0

* Plans are classified on the basis of the vesting conditions applicable to employees who leave before completion of the minimum vesting conditions prescribed by legislation. These minimum legislative conditions apply to an employee who satisfies one of the following conditions:

(a) is employed in a jurisdiction that has pension legislation, and has completed 10 years of service or membership and is 45 years of age or older,

(b) is employed in Saskatchewan, has completed one year of service or membership, and age plus years of service or membership equals 45,

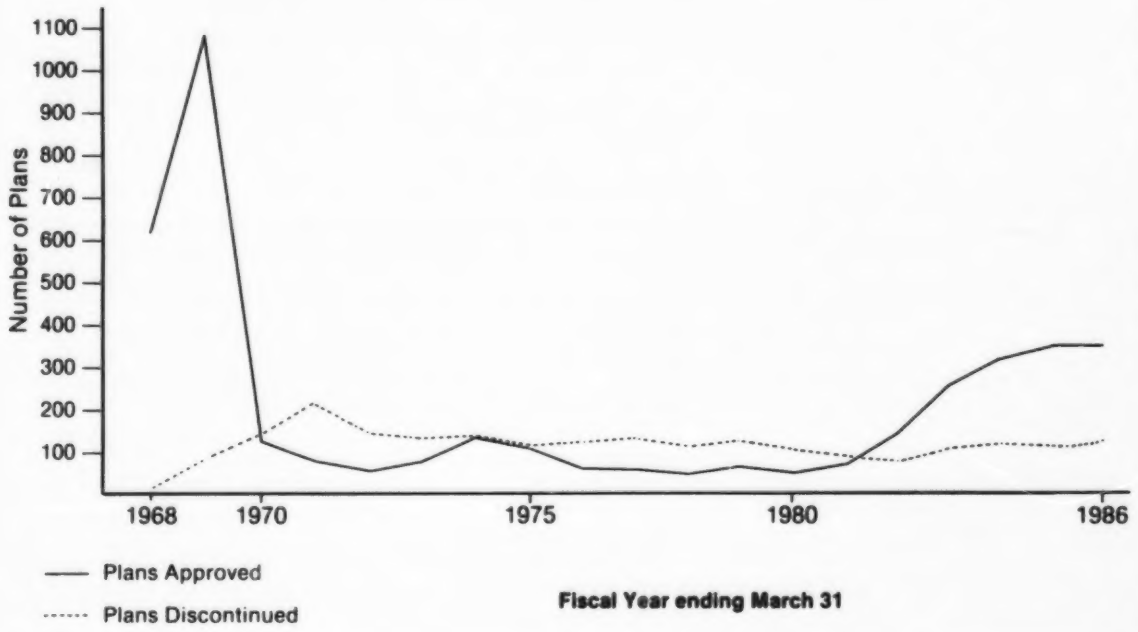
(c) is employed in Manitoba and has completed 5 years of service or membership.

** Plans that have no vesting other than the legislative requirements outlined in note (*) above.

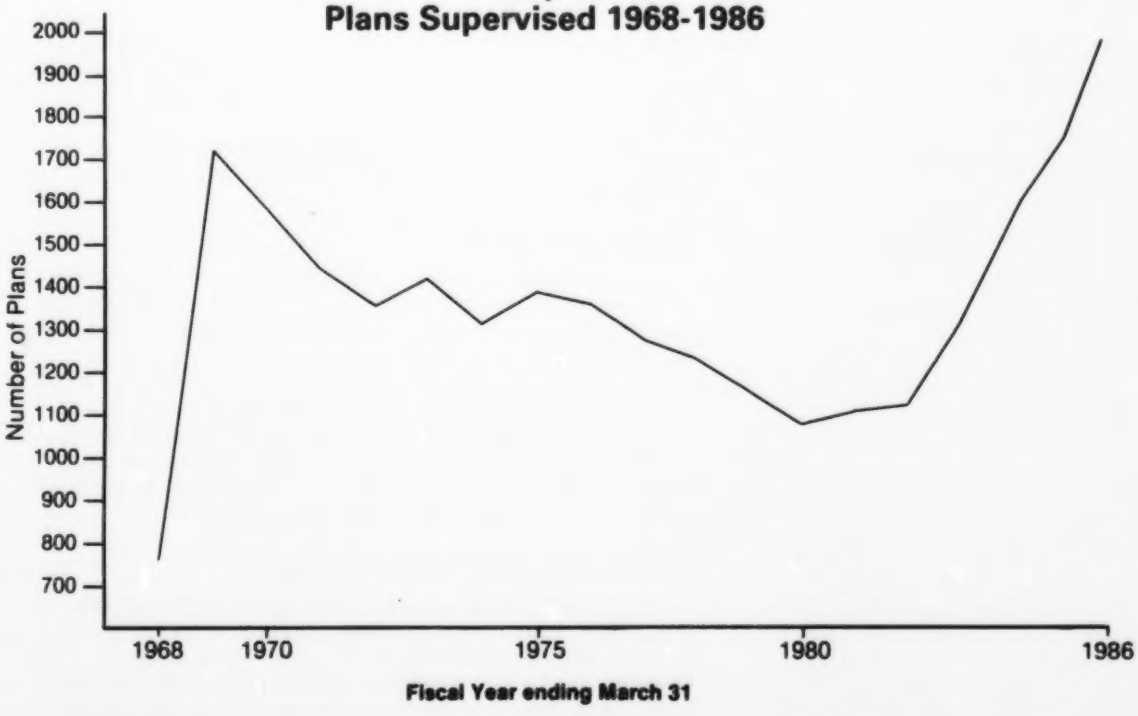
Table 7
Plans and Members By Type of Benefit
At March 31, 1985 and 1986

Type of Benefit	1985				1986			
	Plans		Members		Plans		Members	
	#	%	#	%	#	%	#	%
Unit Benefit								
Final Average Earnings	71	4.0	18 949	8.3	45	2.3	13 267	5.9
Average Best Earnings	198	11.2	44 321	19.5	252	12.6	56 772	25.0
Career Average Earnings	175	9.9	19 410	8.5	154	7.7	16 746	7.4
Total Unit Benefit	444	25.1	82 680	36.3	451	22.6	86 785	38.3
Money Purchase	1 218	69.1	16 262	7.2	1 434	71.8	18 491	8.2
Profit Sharing	24	1.4	1 595	0.7	29	1.5	1 903	0.8
Flat Benefit	72	4.1	124 600	54.8	74	3.7	117 484	51.8
Composite	5	0.3	2 265	1.0	8	0.4	1 981	0.9
TOTAL	1 763	100.00	227 402	100.0	1 996	100.0	226 644	100.00

Graph 1
Plans Approved and Discontinued 1968-1986



Graph 2
Plans Supervised 1968-1986



Appendix

Main Provisions of the Pension Benefits Act, in General Terms

The Pension Benefits Act (Chapter P-3 Revised Statutes of Alberta 1980) came into force January 1, 1967. In general terms, the main provisions of the Act are as follows:

1) Vesting

A member of a pension plan who, upon ceasing to be employed by an employer, has attained age 45 and has either completed 10 years of continuous service with the employer or been a member of the plan for such period, whichever occurs first, is entitled to the pension benefits earned under the plan in respect of service since January 1, 1967. These pension benefits are payable only as a life annuity commencing at retirement age.

Neither the value of the life annuity nor any contributions the employee was required to pay towards the cost of this annuity is available in cash. In addition, this entitlement cannot be assigned, surrendered, alienated, seized or attached.

Because of these provisions, the true purpose of pension plans, which is to provide income for retirement years, is upheld.

2) Funding

Each year the employer is required to pay into the pension fund sufficient monies to cover the cost of the benefits earned in that year. In addition, where a liability exists because of (1) the granting of benefits for prior service, or (2) experience different from that assumed by the actuary, annual special payments designated to liquidate the liability within a specified number of years must be paid into the pension fund.

The maintenance of a fund ensures that pension monies are kept separate and distinct from assets of the employer.

3) Investment

Insurance companies are limited by federal legislation with respect to their investments. The securities in which pension funds may be invested are also, for the most part, subject to these limitations.

An additional restriction is that not more than 10 per cent of the book value of the fund may be invested in securities relative to any one corporation. Seven per cent of the fund may be invested in unqualified securities. These limitations are intended to reduce the risk of fund diminution through investment losses.

4) Explanation to Employees

The employer is required to provide each member of the pension plan with a written explanation of the terms and conditions of the plan and amendments thereto. This ensures that plan members are made aware of their rights and duties under the plan as well as the benefits they may become entitled to.